JOINT ECONOMIC COMMITTEE

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U.S. HOUSEHOLD WEALTH AT ALL-TIME HIGH
30.6 Percent Increase Since 2000

Although policymakers may be more familiar with aggregate income statistics such as the gross domestic product (GDP),[1] examining aggregate net worth statistics can also provide policymakers with valuable insights about the performance of the U.S. economy. Accumulated wealth is as important as current income in determining the economic well-being of an individual, a firm, or a country.

Every quarter, the Board of Governors of the Federal Reserve System publishes the *Flow of Funds Accounts of the United States*, which tracks both the quarterly changes and the end-of-quarter levels of the assets, liabilities, and net worth of major sectors of the U.S. economy on a market value basis.[2]

On December 19, 2006, the Federal Reserve reported that the aggregate net worth of the household and nonprofit sector[3] increased to an all-time high of $54.1 trillion as of September 30, 2006. Despite the negative wealth effects of the bursting of the stock market bubble in 2000 and the terrorist attacks in 2001, the aggregate net worth of U.S. households has increased by 30.6 percent in the five and three-quarter years from the end of 2000 to the end of the third quarter of 2006. Moreover, the aggregate net worth of U.S. households has increased during each of the last sixteen quarters.

The rapid accumulation of wealth among U.S. households during the last five and three-quarter years is mainly attributable to:

- **Owner-occupied housing**. The escalation of residential real estate prices during the last five and three-quarter years boosted the market value of owner-occupied housing by 79.5 percent to $20.5 trillion on September 30, 2006.
- **Owner's equity in non-corporate businesses and farms**. The market value of owner's equity in non-corporate businesses and farms grew by 51.4 percent during the last five and three-quarter years to $7.1 trillion on September 30, 2006. Since the earnings of non-corporate businesses and farms flow through to their owners for federal income tax purposes, the reductions in marginal personal federal income tax rates and in capital gains tax rates enacted in 2001 and 2003 contributed to the appreciation in the aggregate value of these mainly small businesses and farms.

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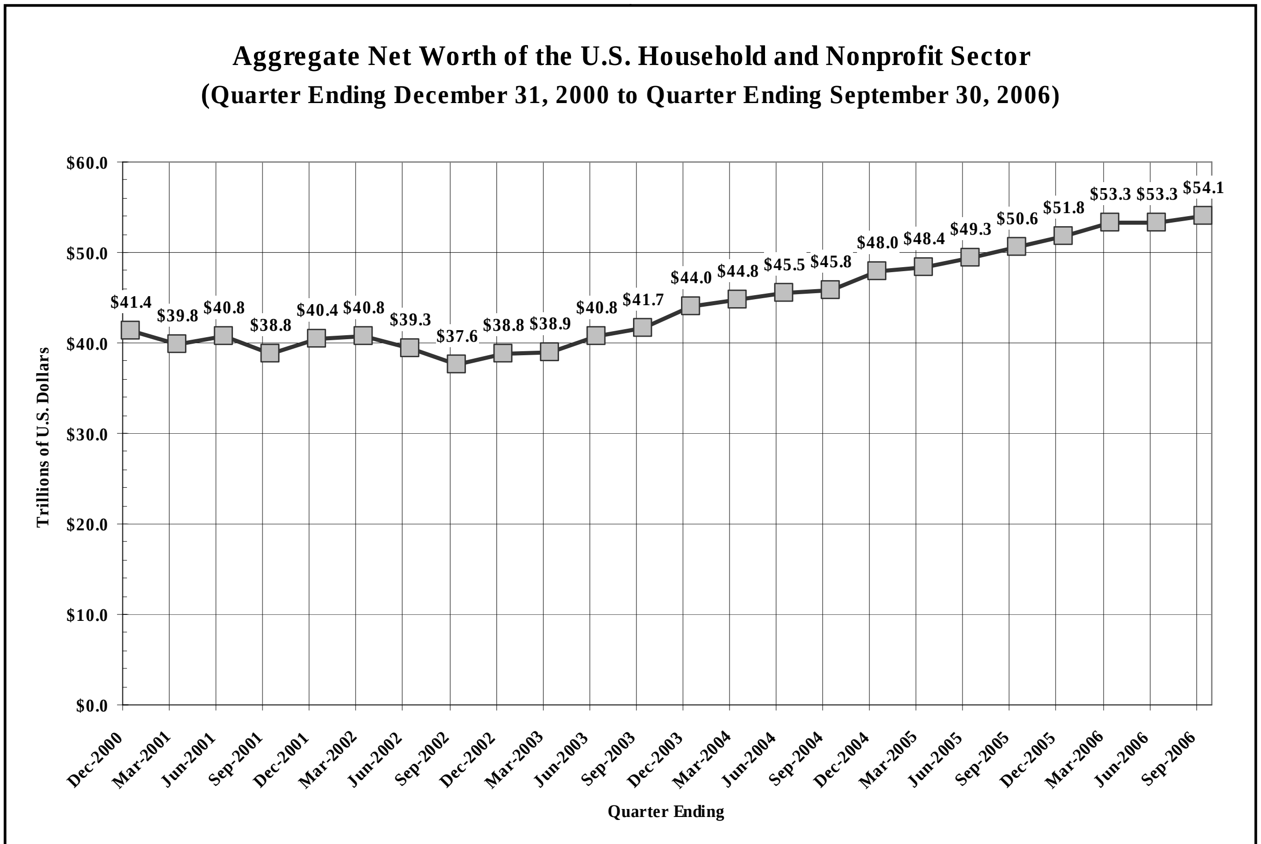
[1] GDP measures the income paid to all factors of production during a period, or equivalently, the market value of all goods and services produced during a period. The Department of Commerce, Bureau of Economic Analysis (BEA) publishes quarterly national income and product accounts (NIPA) data, which include GDP.
See http://www.bea.gov/bea/dn/home/gdp.htm.

[2] Federal Reserve, *Flow of Funds Accounts of the United States: Flows and Outstandings Second Quarter 2006* (December 7, 2006), found at http://www.federalreserve.gov/releases/Z1/Current/default.htm.

[3] The *Flow of Funds Accounts* provides separate annual data regarding aggregate assets and liabilities of the nonprofit organization sector only through 2000. On December 31, 2000, the net worth on a market value basis of the nonprofit sector was $3.298 trillion or 7.9 percent of the net worth on a market value basis of the household and nonprofit sector. The remaining 92.1 percent was attributable to the household sector. For simplicity, the household and nonprofit sector is referred to herein as the household sector.



- **Pension fund reserves**. The market value of pension fund reserves increased by 26.9 percent during the last five and three-quarter years to $11.6 trillion on September 30, 2006.
- **Corporate equities**. All major stock price indices have rebounded since their post-bubble troughs on October 9, 2002.[4] Consequently, the significant decline in the market value of both equities owned directly by households and equities owned indirectly through mutual funds, which occurred before October 2002, has largely been reversed. As of September 30, 2006, the market value of directly owned equities and mutual funds was $10.0 trillion, 53.2 percent above its level on September 30, 2002. Again, reductions in federal taxes on capital gains and dividends in 2003 contributed to this rebound in stock prices.

[4] From October 9, 2002 to September 29, 2006 (the last trading day of the month), the Dow Jones Industrial Average expanded by 60.3 percent from 7,286.27 to 11,679.07; the Standard and Poor's Composite 500 Index grew by 72.0 percent from 776.76 to 1,335.85; and the NASDAQ Composite Index swelled by 102.7 percent from 1,114.11 to 2,258.43.